2008/2009 : Report 1

OFFICE OF THE

Auditor General of British Columbia

An Audit of Joint Solution Procurement and the Revenue Management Project

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The Honourable Bill Barisoff
Speaker of the Legislative Assembly
Province of British Columbia
Parliament Buildings
Victoria, British Columbia
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Dear Sir:

I have the honour to transmit herewith to the Legislative Assembly of British Columbia my 2008/2009 Report 1: An Audit of Joint Solution Procurement and the Revenue Management Project.

John Doyle, MBA, CA
Auditor General of British Columbia

Victoria, British Columbia
April 2008

copy: Mr. E. George MacMinn, Q.C.
Clerk of the Legislative Assembly

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Auditor General's Comments

John Doyle
Auditor General

Government is continuously looking for ways to deliver its services and carry out its mandate in a more efficient manner. Alternative Service Delivery is seen as one way to achieve this. In 2003, the government of British Columbia invested in a process, Joint Solution Procurement, as a preferred route for outsourcing some of the services it delivers.

Joint Solution Procurement is a process intended to solve complex business problems where there isn't a clear "off the shelf" solution. It seeks to use private sector expertise to provide a range of options.

With the support of a dedicated support team, ministries have completed a total of ten contracts worth $1.6 billion. These contracts cover a wide range of services including the administration of Medical Services Plan and Pharmacare premiums, tax revenue collection, and the provision of high-speed internet connections.

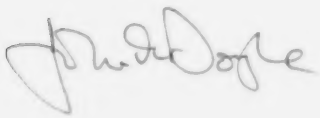
This audit looked at whether generally accepted principles of good practice for outsourcing large services such as these are incorporated into the process used by government. It also looked at one of the first projects completed to see if these principles were followed in practice.

We concluded, from our work, that the Joint Solution Process and the outsourcing of revenue management substantially met the principles of good practice identified. We found that strong guidance and support are provided for ministries using the process. We also identified some areas where improvements could be made to improve the process, address staffing issues, and strengthen procedures to ensure the independence of those involved.

Government recently made the Joint Solution Procurement route the default process for procuring certain types of services above a set limit. With government's renewed commitment to this method of outsourcing, as well as the value of contracts already signed, my office will expand its examination of this area in future.

Auditor General's Comments

I would like to thank the staff in the Ministry of Labour and Citizens' Services, and the Ministry of Small Business and Revenue for the cooperation and assistance they provided to my staff during their work on the audit.



John Doyle, MBA, CA
Auditor General of British Columbia

Victoria, British Columbia
April 2008

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Executive Summary

Executive Summary

Alternative Service Delivery is a strategy many governments are now using to transform the way they deliver public services. The British Columbia government has redeveloped one such alternative for outsourcing, known as Joint Solution Procurement. With this approach, private sector expertise is used, in a collaborative process, to identify a range of solutions to outsource service delivery on behalf of the Province.

To date, the Province has signed ten Joint Solution Procurement contracts worth a total value of $1.6 billion and with projected benefits of $550 million expected over, typically, 10-year periods.

We examined British Columbia's Joint Solution Procurement process to assess how it stands up against procurement best practice. We also examined one of the Province's early procurement projects—the outsourcing of revenue management services in 2003—to assess whether it met those principles in practice.

Audit Conclusions

The audit assessed the process used for procurement against the principles of best practice. We did not assess whether the best solution was obtained, but our work enabled us to comment on risks to best value not being achieved.

- Both the Joint Solution Procurement process and the outsourcing of revenue management services substantially meet the principles of procurement best practice.
- Some areas require improvement.

Key Findings

Joint Solution Procurement represents a significant development in the way services are delivered both to the public and within government. The outsourcing of revenue management services was one of the first projects to use this approach in 2003. Since then, the process has evolved, partly as result of lessons learned. It met most of our audit criteria, but improvements are still required.

Executive Summary

Our Key Findings

- Strong guidance and support are being provided for the Joint Solution Procurement process in the following areas:
  - Establishing the need for procurement
  - Planning the procurement
  - Providing a competitive, multi-stage process
  - Evaluating tenders
  - Exercising due diligence
  - Conducting post-tender negotiations
  - Agreeing and approving the preferred tenderer
  - Awarding the contract
- The Province is clearly focused on refining the Joint Solution Procurement process through "lessons learned" and continuous improvement.
- However, the process could be at risk as it relies on a small number of experts – some of them external.
- Controls to ensure that no real or perceived conflicts of interest arise among critical outsourcing team members have not been strong enough.
- Poor baseline information can distort the financial basis on which services are outsourced.
- A comprehensive business case, with a detailed analysis and understanding of costs, risks and benefits, is not being produced for every Joint Solution Procurement project.
- A lack of reliable information on the internal cost of outsourcing could result in Treasury Board approving a project without complete costing information.
- Lessons from the outsourcing of revenue management services point to the need to commit sufficient staff resources to all Joint Solution Procurement projects, from initiating the process through to managing the contract.

Our Recommendations

1. **With regard to the Joint Solution Procurement process, we recommend that:**
   a. the *Joint Solution Procurement in a Box* process guide be updated regularly;
   b. guidance to project teams include a risk assessment of baseline information that they can use to both prepare business cases and develop contractual financial models; and
   c. a detailed business case be prepared for all Alternative Service Delivery (ASD) projects, whether or not Treasury Board approval is required for any one project, and that the business case include an estimate of the full cost of the outsourcing project and of ongoing ministry costs once the contract has been signed.

2. **With regard to staff, we recommend that:**
   a. a succession plan for key support roles be put into place;
   b. all ministry staff and contractors involved in ASD projects sign an independence declaration confirming they have no conflicts of interest in any of the projects, and that they update these declarations as circumstances change; and
   c. all ASD projects ensure continuity of staffing, from the outsourcing team through to the contract management team, and plan for sufficient staff numbers and skills to manage the contract.

3. **With regard to independence, we recommend that:**
   a. a non-solicitation clause be included in every new ASD contract to prevent vendors from employing or offering another benefit to, without the Province's consent, any government staff member who has had a key role in the project; and
   b. this clause apply for a period of no less than two years after the contract is signed.

Government Response

The Ministries of Labour and Citizens' Services and Small Business and Revenue would like to thank the Office of the Auditor General for undertaking this review of the Joint Solution Procurement and the Revenue Management Project. We are pleased we have met, or substantially met best practices in our processes. We also appreciate the opportunity to offer preliminary views on the Auditor General's recommendations. The following summarizes the activities and intentions of the ministries in response to those findings.

Since the initial development of the JSP process and the early agreements that were signed, the Province has recognized the need for ongoing review and continuous improvement in Alternative Service Delivery processes, both in the procurement process and in ensuring the Province of British Columbia receives full value from the agreements.

Last fiscal year, the Ministry of Labour and Citizens' Services added two key roles to the ASD Secretariat; the oversight of the business case development and review processes and the strengthening of corporate ASD relationship management capacity. Both these components focus on bringing best practices to the management of the entire ASD life cycle. The business case seeks to establish and risk-assess the baseline information to ensure it is accurate and comprehensive, and relationship management to facilitate learning and support the alliance management office community across government.

Consistent with government's corporate Human Resources Plan, action is being taken to ensure we recruit and retain ASD staff through targeted programs including:

- ASD specific training
- Creation of the Alliance Management Framework
- Active recruitment and retention strategies
- Targeted Succession Management program

Government Response

With regard to the observations around conflict of interest and non-solicitation, the Province's ASD processes have been designed to meet the highest standards, many of which have since been incorporated into traditional procurement processes. Notwithstanding this, the Province, has in consultation with legal procurement experts, enhanced the existing practices by moving from blanket conflict of interest declarations to project specific declarations, and will also review the report's recommendation for a two year non-solicitation clause.

The Ministry of Small Business and Revenue would also like to acknowledge the Auditor General for their review of the early phases of the Revenue Management Project. Significant work has been undertaken to establish the Centre of Excellence for revenue Management.

In the first three years of the agreement, the Province is on track to realize the $517 million benefits over 12 years from increased remittances and collections on overdue accounts receivable. Customer service targets also continue to be achieved; for example, the call wait time over the past three years has consistently exceeded the performance target of 3 minutes; and on average, 97 percent of customer inquiries have been resolved on first call, exceeding the target of 75 percent.

As the report acknowledges, the contract refresh initiated by Ministry of Small Business and Revenue resolved a number of contract provisions needing review and update. The Ministry has also added resources to ensure effective management of the contract, to develop and deliver new services and ensure continuity, succession arrangements and knowledge transfer practices are in place for key resources. This will ensure strong management for successful outcomes.

The Ministries of Labour and Citizens Services' and Small Business and Revenue will be preparing a more detailed response to this audit through developing a joint action plan.

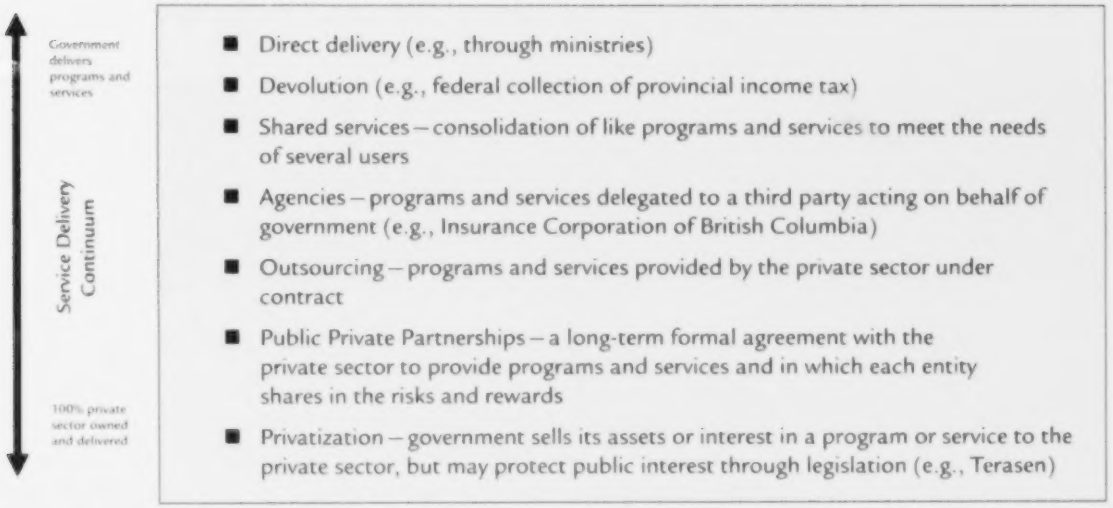
Alternative Service Delivery: An Overview

What is Alternative Service Delivery?

Alternative Service Delivery (ASD) describes an approach by governments to improve service delivery and reduce the costs of it. A form of modernization strategy, ASD includes a range of options (Exhibit 1).

Exhibit 1:

Service delivery options available to government


Government delivers programs and services
Service Delivery Continuum
100% private sector owned and delivered
Direct delivery (e.g., through ministries)
Devolution (e.g., federal collection of provincial income tax)
Shared services – consolidation of like programs and services to meet the needs of several users
Agencies – programs and services delegated to a third party acting on behalf of government (e.g., Insurance Corporation of British Columbia)
Outsourcing – programs and services provided by the private sector under contract
Public Private Partnerships – a long-term formal agreement with the private sector to provide programs and services and in which each entity shares in the risks and rewards
Privatization – government sells its assets or interest in a program or service to the private sector, but may protect public interest through legislation (e.g., Terasen)

Alternative Service Delivery in British Columbia

Alternative Service Delivery is not new to British Columbia. In recent years, the government has adopted the approach to:

- devolve health operations to regional health authorities;
- privatize highway maintenance;
- outsource data centre operations and applications maintenance; and
- outsource child support maintenance operations and systems management.

Background

In 2001, the Province undertook a core review of all public institutions and programs with the aim of transforming the way government services are delivered. One initiative identified for doing this was ASD, seen as a way to invest in infrastructure, increase delivery efficiency, reduce costs and improve services to citizens. It was taken on to cover two options: outsourcing and Public Private Partnerships.

In 2003, Cabinet approved an ASD Strategic Plan. It identified key ASD outsourcing opportunities for IT and business processes; laid out a multi-year implementation plan; and created the ASD Secretariat within what is now the Ministry of Labour and Citizens' Services. The preferred route for outsourcing through the ASD Secretariat is Joint Solution Procurement, discussed below.

> "The Alternative Service Delivery Secretariat provides expertise, guidance and corporate oversight across government by identifying opportunities to transform the way government services are delivered. This includes increasing private sector involvement and structuring appropriate long-term private sector relationships to deliver value for money to the Province."
>
> Ministry of Labour and Citizens' Services 2007/08-2009/10 Service Plan

In October 2006, the Premier announced that partnership with the private sector would be considered the "base case" for all procurements where the Province contributes more than $20 million to the capital cost of a project. For all information management/IT projects above this threshold, the ASD Secretariat will review the business case and make recommendations to Treasury Board. This represents a change in strategy—from one of actively identifying potential ASD projects to one where the default position for all capital funding above a set limit is partnership with the private sector.

Joint Solution Procurement

What is Joint Solution Procurement?

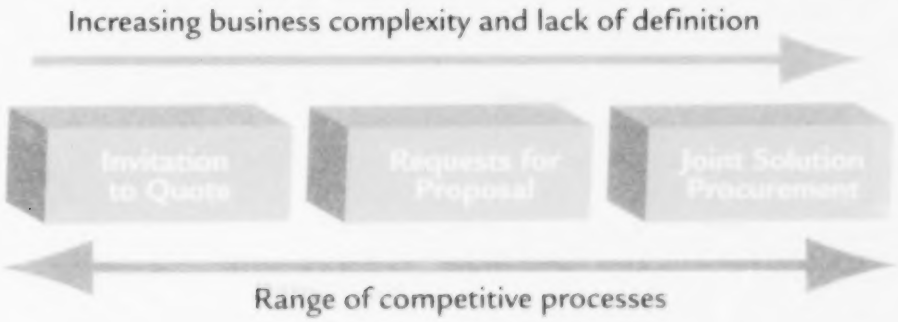
Joint Solution Procurement is an alternative buying process developed by the government of British Columbia. It is intended to solve complex business problems where there isn't a clear "off the shelf" solution. The process is designed to bring together the

strengths of innovation, partnership, and a good understanding of business processes to improve service delivery. It is, however, a very expensive process, requiring considerable time investment from senior staff and technical experts.

This form of procurement is part of a range of procurement forms available (Exhibit 2). The more traditional options are Invitation to Quote (a price-based bidding for a well-defined product or service) and Request for Proposal (a project-based process for new solutions). Both of these may involve one stage or many, and price is only one factor.

Exhibit 2:

Procurement options available

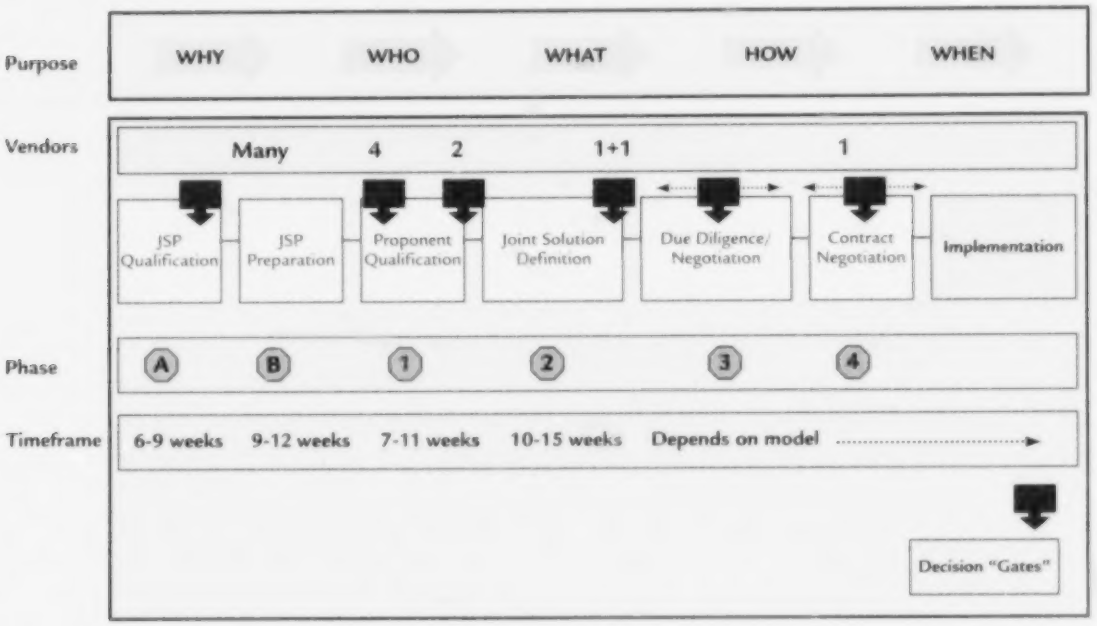

Increasing business complexity and lack of definition
Invitation to Quote
Requests for Proposal
Joint Solution Procurement
Range of competitive processes

Source: Adapted from Executive Institute on Alternative Service Delivery.

Joint Solution Procurement is a multi-stage, collaborative process that seeks to use private sector expertise to design a wider range of solutions (Exhibit 3). The solutions are also typically large-scale and long term and involve some form of business transformation.

Exhibit 3:

Overview of the Joint Solution Procurement (JSP) Process



Source: Executive Institute on Alternative Service Delivery.

Phase A — Assess suitability of business problem area for Joint Solution Procurement process.

Phase B — Prepare and issue Joint Solution Request for Proposals with evaluation criteria.

Phase 1 — Select four vendors based on capability, capacity and commitment ("3C's") and narrow to two vendors based on the 3C's plus concept presentations.

Phase 2 — Joint Solution Definition jointly develops proposed solution frameworks through iterative design cycles (independently with both vendors). Select successful vendor for negotiation.

Phase 3 — Conduct rigorous due diligence to validate assumptions, business processes, human resources, cost data, etc.

Phase 4 — Negotiate the deal structure, governance arrangements and implementation planning. The contract is then finalized and signed.

Once the contract is signed, then the deal is implemented. This can involve the transfer of ministry staff, data, buildings and other assets to the new service provider.

This process and the continuing contractual arrangement requires a much higher degree of flexibility and communication than does a more traditional procurement solution. A Joint Solution Procurement can result in something between a traditional outsourcing contract and a Public Private Partnership deal, as it involves partnership and a sharing of risks and rewards, typically over a 10-year period.

Projects are very complex and even influence other ASD arrangements. They include a significant element of change in the way services are delivered, with new technology, processes and practices.

Joint Solution Procurement contracts signed up to now

To date, 10 major contracts have been signed with a total value of about $1.6 billion and projected benefits (identified by government) of $550 million over 10 years. Ministries anticipate additional benefits of improved processes, advanced technology, and capital avoidance. As part of these contracts, 800 public servants have been transferred to the private sector. A list of all ASD projects completed to date is provided in Appendix B.

The Revenue Management Project

In 1999, the Auditor General conducted an audit of the Province's overdue accounts receivable. The audit found that in a two-year period, the amount of overdue accounts had increased by $221 million (from $234 million at March 31, 1995, to $455 million at March 31, 1997). A combination of factors had contributed to collection problems. Notably, as our report stated:

> "Government policies provided limited incentives to program managers to encourage the collection of debts and, in some cases, encouraged choices that were not the most cost-effective.
>
> New policies regarding Medical Services Plan premiums and Income Assistance benefits resulted in new receivables which ministries lacked the administrative machinery to manage."
>
> Source: OAG BC 1998/99 Report 3: Collection of Overdue Accounts Receivable

In June 2001, the Ministry of Provincial Revenue was established and became a hub for the administration and collection of much of the Province's revenue. This did not solve the problem, however. By late 2002, overdue accounts (90 days+) had reached $650 million. The ministry made a submission at this point to Treasury Board, asking for a new, in-house revenue management system to be established at a capital cost of $25 million. The submission dismissed outsourcing as a solution because of the lack of performance baseline information. Treasury Board did not approve the request.

When Cabinet approved the Alternative Service Delivery Strategic Plan in May 2003, it identified revenue management as a short-term opportunity within the plan, seeing it as one of "a manageable set of initiatives that can be implemented within a reasonable period of time." Other ASD projects identified in this category and subsequently outsourced (see Appendix B) included:

- Medical Services Plan (MSP) and Pharmacare (now delivered by Maximus);
- Workstations (now delivered by IBM); and
- Payroll and Human Resources (now delivered by Telus).

A Joint Solution Procurement was carried out

In May 2003, a revised Treasury Board submission was approved on the basis of a Joint Solution Procurement solution. The in-house build option originally proposed was not considered viable, partly because "it would not be in line with government strategic direction."[1] Overdue accounts now stood at $717 million.

Treasury Board approved the project this time and a Joint Solution Request for Proposal was issued in June 2003. As the document stated, the key goals of the project were to:

- maximize revenue collection for the province;
- minimize the cost per dollar collected; and
- enable effective reporting and performance measurement.

[1] Ministry of Provincial Revenue submission to Treasury Board, May 2003.

The document also defined the business issues to be addressed. These, seen as being the causes of the high overdue receivables figure, were related mainly to inaccurate records, a lack of payment options, poor policies and procedures, fragmented administration, old information technology (IT) systems, and disincentives for ministries to improve collections.

A process was also implemented to set performance benchmarks.

Five vendors were selected to proceed to the Phase 1 evaluation. From that stage, two vendors were selected to work through a three-month Joint Solution Definition phase in late 2003. Following an evaluation of the two final solutions by a panel of senior government representatives, EDS Canada was selected to proceed to the final due diligence and contract negotiation phases in January 2004. These final stages were complex and involved many specialists, both in-house and external. A submission was made to Treasury Board in September 2004 to complete the deal, and an agreement was signed with EDS Canada's subsidiary, EDS Advanced Solutions, on November 26, 2004.

From the initial submission to Treasury Board to approve a Joint Solution Procurement solution to signing of the contract, the process took 17 months to complete.

A contract "refresh" was used to address early issues

With a contract as complex as the one for revenue management was, it would not be unusual for issues to arise after the contract has been signed. However, within the first two years of the EDS Canada agreement being in place, several particularly significant issues became apparent:

- Unexpected "windfall" profits for EDS Canada — The financial model for the deal relied in part on inaccurate Ministry of Health baseline information on Group Medical Services Plan payments. This information underestimated the additional revenue that would be realized and, under the model, would have increased EDS Canada's profits well beyond those anticipated. As a result, the financial model was renegotiated to align payments to EDS more closely with those originally anticipated.

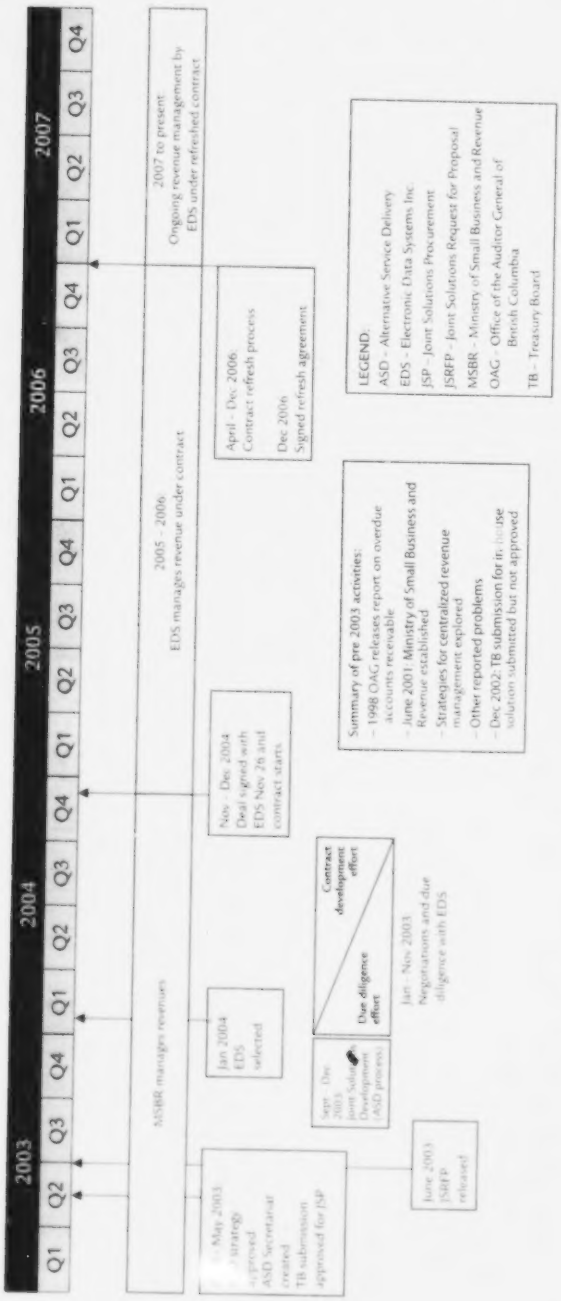
- Delays and increased costs in the development of the Revenue Management System resulted in EDS Canada negotiating an extension to certain delivery deadlines.
- Arrangements in place to manage the contract, both within government and with EDS Canada, were managed by a single management office. Early problems highlighted the need for a different arrangement. A Business Development Office was set up to manage the delivery and development of services to other parts of government; and a Contract Management Office was set up to manage the relationship with EDS Canada. Clearer protocols were also established to resolve further issues.

To address these issues, a contract "refresh" (a form of contract amendment) was carried out rather than several individual projects being set up to tackle each item. The refreshed contract was signed on December 7, 2006. As part of the amended agreement, the contract period was extended from 10 years to 12.

A timeline of significant events in the revenue management project is shown in Exhibit 4.

Exhibit 4:

Revenue management project timeline


2003
2004
2005
2006
2007
Q1 Q2 Q3 Q4 Q1 Q2 Q3 Q4 Q1 Q2 Q3 Q4 Q1 Q2 Q3 Q4 Q1 Q2 Q3 Q4
MSBR manages revenues
2005 - 2006:
EDS manages revenue under contract
2007 to present:
Ongoing revenue management by EDS under refreshed contract
May 2003
Strategy approved
ASD Secretariat created
TB submission approved for JSP
Jan 2004
EDS selected
Sept - Dec 2003
Joint Solution Development (ASD process)
Due diligence effort
Contract development effort
Jan - Nov 2003
Negotiations and due diligence with EDS
June 2003
JSRFP released
Nov - Dec 2004
Deal signed with EDS Nov 26 and contract starts
April - Dec 2006:
Contract refresh process
Dec 2006
Signed refresh agreement
Summary of pre 2003 activities:
- 1998 OAG releases report on overdue accounts receivable
- June 2001 Ministry of Small Business and Revenue established
- Strategies for centralized revenue management explored
- Other reported problems
- Dec 2002: TB submission for in-house solution submitted but not approved
LEGEND:
ASD - Alternative Service Delivery
EDS - Electronic Data Systems Inc.
JSP - Joint Solutions Procurement
JSRFP - Joint Solutions Request for Proposal
MSBR - Ministry of Small Business and Revenue
OAG - Office of the Auditor General of British Columbia
TB - Treasury Board

Background

Basic elements of the deal

The revenue management project deal aims to share risks and rewards between both parties. EDS Canada makes a significant investment in the early years of the contract and receives, in addition to base fees, a share of the benefits. Once EDS's initial cash investment is recovered, probably around year six or seven, the company's share of the gross benefits is reduced.

The level of benefits earned is also affected by the level of revenue recovery achieved. The benefits come primarily from reducing the Province's bad debt and borrowing costs. In addition, more than 200 ministry staff transferred to EDS. The initial scope of the management functions included in the deal are shown below (Exhibit 5).

Exhibit 5:

Initial scope of revenue management functions delivered by EDS Canada.

Revenue Streams	Projected Benefits ($ millions, unaudited)	Revenue Management Function				
		Collection of overdue accounts*	Payment Processing*	Billing*	Account* Management	Tax return processing
Medical Services Plan Premiums	587	✓	✓	✓	✓	
Court Fines	12	✓				
Immigrant Sponsorship Program	10	✓	✓	✓	✓	
BC Student Assistance Program	10	✓				
BC Ambulance Service Fees	7	✓	✓			
Employment Assistance Program	1	✓				
Oil & Gas Revenues	–		✓			
Bus Pass Program and Commercial Loans	–		✓			
Various taxes	–		✓			✓

Source: Ministry of Provincial Revenue, Revenue Management Project Summary Report, November 26, 2004

*Collection of overdue accounts - collect overdue amounts in a fair and effective way, and reduce the cost of collection.

*Payment processing - provide payment options, encourage early payment, and process payments accurately and quickly.

*Billing - use information provided to send out accurate and timely invoices to customers.

*Account management - maintain accurate and up-to-date information on customers.

Audit Scope and Methodology

The objectives of our audit were to:

- assess whether government's Joint Solution Procurement process incorporates the principles of procurement best practice; and
- assess whether the outsourcing of revenue management services has met those principles in practice, including post-contract transition and management.

Our aim was to assess the overall process and not the individual elements within it (such as project management, the evaluation of submissions, and contract negotiations). Doing the latter would have significantly increased the size and cost of the audit. Neither did we assess whether the best solution was obtained, attempt to validate future costs or benefits, or conclude on whether value for money is being achieved from the contract selected. The recent "refresh" of the revenue management contract—done in part to address issues from inaccurate baseline information—has already indicated that all of the relevant information to assess value for money may not yet be available. The audit did, however, allow us to use our assessment of the extent of compliance/non-compliance with good practice to comment on risks to best value not being achieved.

Our approach to gathering audit evidence entailed:

- interviews and discussions with senior managers and staff at the ASD Secretariat, Ministry of Small Business and Revenue and other parts of provincial government, as appropriate;
- review of the Procurement Services Act, the government's core procurement guidance, and other Canadian and international procurement best practice guidance;
- review of primary documents relating to the Joint Solution Procurement process (including those from the most recent completed project), as well as other relevant documents; and
- review of primary documents relating to the revenue management outsourcing project and subsequent management of the outsourcing arrangement.

We carried out the engagement in accordance with the standards for assurance engagements established by the Canadian Institute of Chartered Accountants. Further details on the Office's performance auditing standards are provided in Appendix C.

Audit Conclusions

Our Overall Conclusions

- The Joint Solution Procurement process provided to ministries substantially meets the principles of procurement best practice, as defined by our audit criteria (see Appendix A). Some areas for improvement were identified.
- The outsourcing of revenue management services substantially meets the principles of procurement best practice, as defined by our audit criteria. Some areas for improvement were identified.

Our Audit Conclusions by Criteria

Our conclusions by individual criteria, for both the Joint Solution Procurement process and the revenue management project, are detailed in Exhibits 6 and 7. Our conclusions in relation to the Joint Solution Procurement process take account of our assessment of documents relating to the most recently completed project, the Provincial Laboratory Information Solution.

For each criterion (detailed in Appendix A), we concluded whether it had been:

- fully achieved (all areas within the audit criterion were met),
- substantially achieved (a small number of areas of concern were noted), or
- not achieved (a significant number of concerns were noted).

Exhibit 6:

Joint Solution Procurement – Summary of audit conclusions by criterion*

Area	Audit Criteria Results		
	Not achieved	Substantially achieved	Fully achieved
1. Need for Procurement			
2. Procurement Plan			
3. Multi-Stage Tender – 1st Stage			
4. Conducting the Tender – 2nd Stage			
5. Evaluation of Tenders			
6. Due Diligence			
7. Post-Tender Negotiation			
8. Agreeing & Approving the Preferred Tenderer			
9. Awarding the Contract			
10. Managing the Transition*	N/A	N/A	N/A
11. Managing the Contract*	N/A	N/A	N/A

Source: Compiled by the Office of the Auditor General of British Columbia

* The Joint Solution Procurement process was not assessed against the last two criteria, managing the transition and managing the contract, as these stages are currently not covered by the process.

Exhibit 7:

Revenue management project – Summary of audit conclusions by criterion

Area	Audit Criteria Results		
	Not achieved	Substantially achieved	Fully achieved
1. Need for Procurement			
2. Procurement Plan			
3. Multi-Stage Tender – 1st Stage			
4. Conducting the Tender – 2nd Stage			
5. Evaluation of Tenders			
6. Due Diligence			
7. Post-Tender Negotiation			
8. Agreeing & Approving the Preferred Tenderer			
9. Awarding the Contract			
10. Managing the Transition			
11. Managing the Contract			

Source: Compiled by the Office of the Auditor General of British Columbia

Key Findings

Strong guidance and support are provided for the Joint Solution Procurement process, although this could be at risk as it relies on a small number of experts – some of them external

Ministries receive strong guidance and support in undertaking an ASD process. For instance, the ASD Secretariat employs some of the experts required for an ASD project (for example, in the field of economic modelling) and makes this specialized expertise available to ministries. The Secretariat also provides linkages to required specialists in other branches of government (for example, law, privacy and risk management). As well, procurement specialists from within the Ministry of Labour and Citizens' Services provide an oversight role throughout the Joint Solution Procurement process, to help ministries ensure the legal and ethical integrity of ASD projects.

The guidance and support provided by the ASD Secretariat and other branches of government are critical to the chances of success of ASD projects. We found, however, that only a small number of specialists are familiar with the complexities of the Joint Solution Procurement process, and some of these specialists are not government employees. Furthermore, the detailed process guide, Joint Solution Procurement in a Box, has not been updated since it was first developed. Both of these situations – a limited number of specialists and a guide that is out of date – concern us, as they put at risk the likelihood of future projects being successful.

The Province is clearly focused on refining the Joint Solution Procurement process through "lessons learned" and continuous improvement.

Much of the Joint Solution Procurement model, including the process guide and standard documentation, was developed for and through the revenue management project. Assessing that project, as well as reviewing documents from the most recently completed joint procurement project – the Provincial Laboratory Information Solution – allowed us to confirm the most up-to-date version of the Joint Solution Procurement process at the time of our audit.

We found that while the key elements of the process have remained unchanged since 2003, it is apparent that lessons learned from early projects have been used to refine the process and the level of assistance provided for later projects. We also found a strong focus on continuous improvement by those developing and supporting the process. For example:

- The ASD Secretariat now provides support further along into the process and continues to support ministry teams after the contract has been signed.
- "Deal Review" has been introduced at key stages. Senior executives challenge the nature of the deal and whether it addresses the original business objectives.

Controls to ensure that no real or perceived conflicts of interest arise among critical outsourcing team members have not been strong enough

We found confidentiality and non-disclosure agreements in place for vendors and contractors, but no separate conflict-of-interest declarations, not even for government staff. Instead, reliance is placed on the Oath of Employment that all staff are required to sign when they are first employed.

A conflict-of-interest declaration is an important tool in ensuring the independence, real or perceived, of everyone able to influence the outcome of the project. It is an opportunity for everyone involved to review whether any relationships they have could influence, or be seen to influence, their objectivity. We believe that a declaration would also serve as evidence (should it be required) that ample opportunity had been provided to review and declare any potential conflicts. Declarations can be updated throughout a project as individual circumstances change.

We also found no non-solicitation clauses in either the revenue management contract or the more recent laboratory information contract. Such a clause seeks to prevent the successful vendor from directly or indirectly making an offer of employment or any other benefit to a key member of the ministry outsourcing team, usually for a defined period after the contract has been signed. One objective of such clauses is to prevent the "capture" (that is, control) of government staff while they are in a position to influence the outcome of the project. Even the perception of capture after the contract has been signed can damage confidence in the outsourcing agreement and the relationship between the ministry and the vendor. We noted that some other ASD contracts do have non-solicitation clauses, but they vary in wording.

Poor baseline information can distort the financial basis on which services are outsourced

The revenue management contract, as in all ASD deals, share risks and benefits between the ministry and the vendor. For this intent to be adequately defined within a legal agreement, there needs to be accurate and reliable baseline information on activity levels, costs and time scales. Only once the existing performance levels (the baselines) are identified can valid future performance targets be set for the successful vendor to achieve.

One of the main reasons for the revenue management contract refresh was that baseline information for one of the largest revenue components of the deal, Group Medical Services Plan, was inaccurate and favoured EDS Canada. Without the refresh EDS Canada might have received windfall profits. Ministry staff told us that this element of the deal had been seen as a lower risk area at the due diligence and negotiating phases and so less work was performed to validate baseline information. Obviously, this was a miscalculation on the part of the revenue management project team.

As well, several government staff told us that provision of baseline performance information is an area where government tends to be weak. This was also explicitly stated in the revenue management business case for an in-house solution originally submitted to Treasury Board in 2002. Having poor performance baseline information is a problem in any situation, but it becomes a more acute issue when monetary incentives are based on it. If it is used in business cases to justify a particular course of action, it can also lead to wrong decisions being made on whether to outsource at all.

A comprehensive business case, with a detailed analysis and understanding of costs, risks and benefits, is not being produced for every Joint Solution Procurement project

A detailed business case would normally contain an analysis of costs, risks, benefits and other factors such as funding sources, together with an option appraisal. This type of analysis helps ensure that decision-makers have all the information they need to make an informed decision. We found that a detailed business case for the revenue management project had been approved by Treasury Board, but no such submission was made for the most recent ASD project completed, the Provincial Laboratory Information Solution (PLIS).

The PLIS was part of the Ministry of Health's eHealth Strategic Framework. As such, it had already been approved in principle as part of a broader health strategy. However, no separate business case or other detailed analysis of costs, risks and benefits was done for the PLIS. This means that the ASD route has been taken for the project without government really knowing whether it is the optimal solution. And even if the ASD route is considered simply to be a policy decision, we still think it should only be taken with all the facts available.

A lack of reliable information on the internal cost of outsourcing could result in Treasury Board approving a project without complete costing information

Completing the Joint Solution Procurement process for the revenue management project involved a significant amount of senior management time, additional staff time, and other resources. These costs were not fully identified and were therefore not considered as part of the decision to outsource or not. Nor were the ongoing costs to manage the contractual relationship with EDS Canada or to liaise with all of the different ministries served by the arrangement, considered as part of the comparison of different revenue management options.

For Treasury Board or other decision-makers to make fully informed decisions, they require details of the full cost of the various options available.

Lessons from the outsourcing of revenue management services point to the need to commit sufficient staff resources to all Joint Solution Procurement projects, from start through to managing the contract

Since the original revenue management contract was signed with EDS Canada, there has been a large turnover of, and increase in, ministry staff managing the contract. About the time of the contract refresh, many of the original project team moved to other posts within government and new staff arrived from inside and outside government. This was the result of a change in contract governance and management arrangements as part of the refresh, as well as recognition that the number and skill base of staff needed to manage the relationships both with EDS Canada and other ministries had been underestimated.

The increase in resources devoted to managing the new revenue management arrangements is a positive one and further evidence of lessons learned. However, the loss of so many members of the original project team may have depleted the "corporate memory" of why the contract with EDS Canada was structured in a particular way, or of earlier working arrangements. It could also dilute the strength of the relationship between the two parties and lead to an arrangement that is based less on a working partnership and more on a strict legal interpretation of the contract.

Our Recommendations

To address our key findings, we make the following recommendations for improving the Joint Solution Procurement process:

1. **With regard to the Joint Solution Procurement process, we recommend that:**
   a. the Joint Solution Procurement in a Box process guide be updated regularly;
   b. guidance to project teams include a risk assessment of baseline information that they can use to both prepare business cases and develop contractual financial models; and
   c. a detailed business case be prepared for all Alternative Service Delivery (ASD) projects, whether or not Treasury Board approval is required for any one project, and that the business case include an estimate of the full cost of the outsourcing project and of ongoing ministry costs once the contract has been signed.

2. **With regard to staff, we recommend that:**
   a. a succession plan for key support roles be put into place;
   b. all ministry staff and contractors involved in ASD projects sign an independence declaration confirming they have no conflicts of interest in any of the projects, and that they update these declarations as circumstances change; and
   c. all ASD projects ensure continuity of staffing, from the outsourcing team through to the contract management team, and plan for sufficient staff numbers and skills to manage the contract.

3. **With regard to independence, we recommend that:**
   a. a non-solicitation clause be included in every new ASD contract to prevent vendors from employing or offering another benefit to, without the Province's consent, any government staff member who has had a key role in the project; and
   b. this clause apply for a period of no less than two years after the contract is signed.

Appendices

Appendix A: Our Audit Criteria

1. The need for procurement

It is important to establish that a procurement is necessary and that it will:

- Deliver value for money;
- Contribute to service delivery; and
- Be consistent with government's overall procurement philosophy.

2. Procurement plan

Regardless of the size of a procurement, it should be properly planned. The level of detail in the procurement plan should be tailored to suit what is being procured. A public entity should observe ethical standards, principles and behaviour throughout the procurement process.

3. Procurement method - multi-stage tender (1st stage)

This method is used to reduce the cost of tendering by restricting the issue of formal tenders to those suppliers with demonstrated capability. It should therefore be used when:

- The cost of tendering is high and the market known to be large; and
- The goods and services being procured are complex and difficult to specify.

4. Conducting the tender (2nd stage)

There should be open and effective competition. A change in rules or procedure should not benefit one tenderer over another.

Appendix A

5. Evaluation of tenders

A public entity should:

- Consider each tender on an equal basis against evaluation criteria;
- Ensure that the selected tenderer has the capacity and capability to meet the requirements of and maintain an effective working relationship; and
- Keep a complete record of the evaluation process.

6. Due diligence

A public entity should undertake "due diligence" in respect of a tenderer if:

- The expected benefits outweigh the costs; and
- The risks of performance failure are high.

7. Post-tender negotiations

Post-tender negotiations are an effective risk management tool and should not focus solely on reducing bottom line costs. Their primary objective should be to:

- Test underlying assumptions of costings; and
- Achieve cost reductions through operational refinements or enhancements.

A public entity should ensure that:

- All negotiations are ethical;
- There is no disadvantage to tenderers by negotiating an agreement materially different in scope from the original tender; and
- A negotiated agreement is sustainable and does not compromise quality.

8. Agreeing and approving the preferred tenderer

Those approving the awarding of a contract should have sufficient information to understand the evaluation process and the rationale for the recommendation.

9. Awarding the contract

The successful tenderer should be notified formally in writing.

Each unsuccessful tenderer should be:

- Told that its tender was not successful;
- Given the name of the successful tenderer; and
- Offered feedback, if requested, on the reasons why its tender was unsuccessful.

10. Managing the transition

When it procures regular supply items or ongoing services, a public entity should plan and manage appropriately the transition to a new supplier. This will help to minimise any disruption to its operations.

11. Managing the contract

Ensuring that the terms of the contract are adhered to, and that all parties to the contract understand their respective obligations, is critical to achieving value for money.

Appendix B: Summary of Alternative Service Delivery Contracts Signed to Date

Project and Contract Value (and Contractor)	Description	Projected Benefits and Savings (Unaudited) (Projected Financial Benefits – nominal $)
Health Benefits Operations *Ministry of Health* $324 million over 10 yr (Maximus)	Outsource and automate majority of MSP and Pharmacare operations. Private sector finances new system.	▪ Improved service to public ▪ Maintain/enhance service to health care providers ▪ Capital cost avoidance ▪ **Revenue cost-neutral**
Payroll Operations & Information Management *Ministry of Labour and Citizens' Services* $133 million over 10 yr (Telus)	Outsource application maintenance and development functions for payroll. Outsource payroll transaction processing (business process outsourcing).	▪ Significant cost savings for government ▪ Growth to Broader Public Sector potential for savings ▪ Transform Human Resources processes (self-service through investment in new technology and processes) ▪ **$35 million over the next 10 years**
Revenue Management Project *Ministry of Small Business and Revenue* $572 million over 10 yr (EDS)	Amalgamate and streamline government revenue management processes to improve service and collection of receivables through transformation and outsourcing.	▪ Reduced outstanding receivables; increased revenue collected ▪ Improved service levels to public ▪ Consolidated financial view ▪ Reduced technology risk ▪ **$382 million over the next 10 years**
Workplace Support Services *Ministry of Labour and Citizens' Services* $300 million over 10 yr (IBM)	Transform and outsource management and operations of workstations and desktop support functions.	▪ Drive toward standardization and predictable pricing ▪ Enhanced service levels to client ministries; transfer operational risks ▪ Significant cost savings ▪ **$82 million over the next 10 years**
Residential Tenancy Office *Public Security and Solicitor General* $7.7 million over 10 yr (Telus)	Develop and implement an online and contact-centre-based system.	▪ Improved service and reduced paper-based processing ▪ **Cost-neutral**
NetWork BC/Digital Divide *Ministry of Labour and Citizens' Services* $245 million over 4 yr (Telus)	Set up telecommunications services contracts to connect B.C. communities to high-speed Internet and lay the foundation for a next-generation network to enable e-health, e-education and e-government.	▪ High-speed secure telecommunications network available to all 366 communities and public sector in B.C. ▪ **$54 million reduction in telecommunications services costs**

Appendix B

Project and Contract Value (and Contractor)	Description	Projected Benefits and Savings (Unaudited) (Projected Financial Benefits – nominal $)
Common Student Information System *Ministry of Education* $15 million over 5 yr (Fujitsu)	Acquire a common student information system for all schools and school boards. Select a private sector partner to centrally host and maintain key education applications.	▪ Reduced administrative burden allowing schools to focus on core business ▪ Improved service with better access to more accurate data ▪ **Cost-neutral**
Service BC *Ministry of Labour and Citizens' Services* $35.6 million over 8 yr (IBM Canada)	Create the foundation to support an improved service delivery environment that provides consistent, seamless, integrated and innovative access to government information services via online, telephone and in-person service delivery.	▪ Reduced operating costs ▪ Four-year technology refresh ▪ Enhanced stability ▪ Improved service delivery for ministries across all service delivery channels (telephone, online and in-person) via new portal ▪ Improved Service BC ability to provide information and services to citizens and businesses
Provincial Lab information Solutions *Ministry of Health* Up to $149 million over 10 yr (Sun Microsystems)	Transform the way laboratory information and other critical clinical information is managed. Ensure improved access to laboratory information at point of care anywhere in B.C. for authorized users.	▪ Provide care providers with timely access to laboratory information at the point of care, anywhere in the province
Pan Canadian Health Surveillance *Ministry of Health* Up to $37 million over 8 yr (IBM Canada)	System to provide ability to collect, share and analyze health information to assist public health care officials to better manage health outbreaks. Manage outbreaks through early detection, rapid verification and appropriate response to epidemic-prone and emerging disease threats.	▪ Provide real-time ability to collect, share and analyze health information critical for managing health problems relating to communicable diseases

Appendix C: Office of the Auditor General Performance Auditing Standards

Performance audit (also known as value-for-money audit) is one of the main elements of comprehensive, public sector auditing. Our performance audit work is subject to standards prescribed by the Canadian Institute of Chartered Accountants (CICA) for all audit work, as well as specific standards for value-for-money auditing in the public sector.

The CICA standards for our performance audit work are intended to apply to audits in the following areas:

- The value-for-money obtained from management systems, controls and practices, including those intended to safeguard assets.
- The value-for-money obtained from the management of public resources.
- The effectiveness of public programs, operations or activities.

These audits can be carried out for an organization, or only part of an organization, such as a program, management control system or organizational unit.

The standards limit the assurance we can provide to two distinct levels:

- Audit — a high, though not absolute, level of assurance. Our work generally includes a combination of inspection, observation, enquiry, confirmation, computation, analytical procedures and discussion. Absolute assurance is not possible due to a number of factors: some use of judgement is often needed; sample testing, rather than 100 per cent, is sometimes used; controls have in-built limitations; our evidence is usually more persuasive rather than conclusive; and we often work in areas that lack absolute precision.
- Review — a moderate level of assurance. Our work generally includes enquiry, analytical procedures and discussion. The evidence available and our findings are often seen as plausible rather than persuasive or conclusive.

The Office prefers to carry our audits rather than reviews, as audits provide the highest level of assurance to legislators and the public.

Appendix C

There are two forms of reporting used in performance auditing:

- Attestation — where we provide an audit opinion on whether management's public reporting of their value-for-money performance is fair or not.
- Direct — where we use suitable audit criteria to directly evaluate whether value-for-money has been achieved.

Although attestation reporting is a better link between those that are accountable and who they are accountable to, the Office has tended to use direct reporting to assess whether value-for-money is being achieved by government.

Our performance audits are not designed to assess whether government policies are appropriate or effective. Our mandate does not permit us to assess government policies, as the creation of and changes to them are the responsibility of legislators.

At the start of each audit we discuss the scope and criteria with management. We maintain regular communication with them throughout the audit and at its conclusion discuss our findings. A draft report is also provided to confirm its factual content, and for management to provide a formal response to our findings and recommendations. The final report, including management's response, is then provided to the Speaker of the Legislative Assembly, who lays it before the House. The report is normally then referred to the Select Standing Committee on Public Accounts.

All our performance audits are subject to the practice standards prescribed in our Performance Audit Manual. This contains a performance audit policy framework as well as technical guidance for audit staff. In addition, all performance audits are subject to the standards in our Quality Assurance Manual. This sets quality standards for all our work for the Legislative Assembly. Both of these manuals reflect relevant CICA standards and address the values that guide our work, such as integrity, independence and professionalism.

Appendix D: Office of the Auditor General: 2008/2009 Reports Issued to Date

Report 1 — April 2008

An Audit of Joint Solution Procurement and the Revenue Management Project

This report and others are available on our website at: http://www.bcauditor.com.